



Irish Auditing & Accounting Supervisory Authority

Financial Reporting Supervision role of IAASA

PricewaterhouseCoopers

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Disclaimer

The views expressed are mine and do not necessarily reflect the views of the Board, individual Board members or the staff of IAASA

Confidentiality – Section 31

No person shall disclose, except in accordance with law, information that –

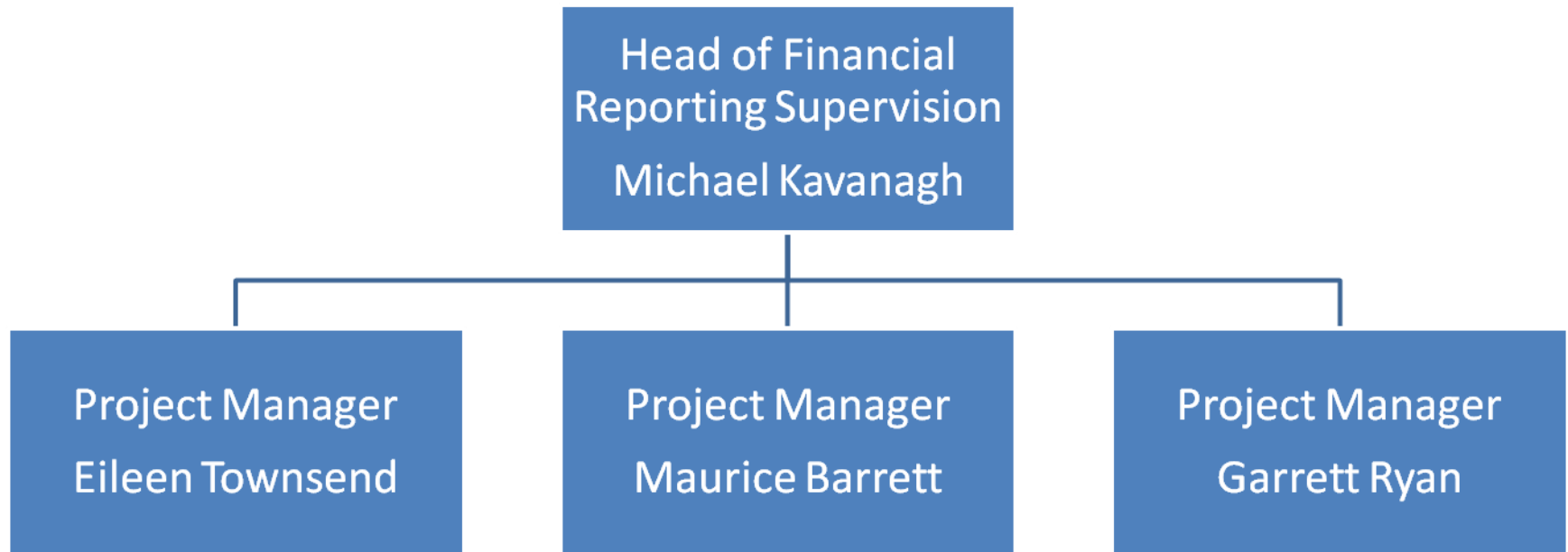
- a) is obtained in performing the functions or exercising the powers of the Supervisory Authority, and*
- b) has not otherwise come to the notice of members of the public...*

Certain exemptions provided for in law

Presentation overview

1. IAASA and its role under the Transparency Regulations
2. Criteria used in selecting financial reports for review
3. IAASA's approach to issues arising from reviews
4. Findings to date
5. Looking forward to 2009

Financial Reporting Supervision Unit



Principal Functions of FRSU

- To examine whether the financial reports of issuers whose Home Member State is Ireland under the Transparency Regulations complies with the relevant reporting framework
- Liaising with other countries' financial reporting monitoring bodies
- Co-operating in the development of accounting standards and practice notes
- Assisting the Board to discharge its functions as an advisor to the Minister on accounting related matters

The Transparency Directive (TD)

- Central Bank is the central administrative competent authority
- IAASA is the independent designated competent authority for carrying out functions under Article 24(4)(h) of the TD, i.e.

...to examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements

Who does it apply to and to which financial reports?

- Applies to all issuers with securities (debt and equity) admitted to trading on an EU regulated market i.e.
 - Shares
 - Bonds or other forms of securitised debt
 - Derivative securities
 - Units issued by closed-ended investment funds
- Applies for accounting periods commencing on or after 20 January, 2007
- Therefore, **31 December, 2008 annuals within remit for first time**

Issuers whose Home Member State is Ireland

Effectively means –

- issuers of shares and debt securities denomination <€1,000 listed in regulated EU market with registered office in Ireland;
- issuers of shares and debt securities denomination <€1,000 - that are registered outside EU - that are required to file an annual information document with the Financial Regulator; and
- issuers of debt securities – denomination per unit > €1,000 who have chosen Ireland as their home Member State from among the Member States in which they have their registered office and those Member States where their securities are listed on a regulated market

Review constituency

Category of issuer	Number of issuers in category	Half-yearly financial reports issued per annum	Annual financial reports issued per annum	Total number of periodic financial reports issued per annum
Equity issuers	36	36	72	72
Debt issuers	164	96*	164	260
Closed ended funds	62	62	62	124
Total	262	194	262	456

* Not all debt issuers are required to prepare and publish half-yearly financial reports

TD – overview of periodic information requirements

	What must be included?	Publication deadline
Annuals	<ul style="list-style-type: none"> ➤ Audited financial statements ➤ Management report ➤ Audit report ➤ Responsibility statement 	4 months after year end
Half-yearly reports	<ul style="list-style-type: none"> ➤ Condensed financial statements ➤ Interim management report ➤ Audit report <i>or</i> review report <i>or</i> negative statement ➤ Responsibility statement 	2 months after period end
Interim management statements	<ul style="list-style-type: none"> ➤ Explain material events and transactions and their impact on issuer's financial position ➤ General description issuer's financial position and performance 	10 weeks after the beginning and 6 weeks before end of relevant six month period

Methodology for selection of entity for review (1)

Selection criteria include:

- Risk of material misstatement in the financial statements
- Potential impact on users of financial statements in the event of material misstatement
- Supplemented with random selection of financial statements for review

Methodology for selection of entity for review (2)

Risk factors include:

- financial structure and business/economic trends
- financial position and ratios
- industry specific issues
- audit qualifications and related issues
- corporate governance and control environment issues
- incidence of related party transactions
- incidence of business combinations and/or disposals
- administrative, court and/or regulatory actions
- third party signals (e.g. complaints received by IAASA, press reportage, referrals etc)

Methodology for selection of entity for review (3)

Assessment of impact of material misstatement:

- share trading activity and volatility in stock price
- market capitalisation
- number and nature of investors
- nature of securities traded
- public profile

IAASA's approach towards issues

- What a review entails.....
- Review issues addressed, in the first instance, through correspondence with issuers with request to respond
What an IAASA letter contains
- Additional correspondence where further clarification or further elaboration is required
- Where relevant/applicable, further action determined having regard to significance of issues arising and directors' responses to matters arising
- Issues being posted to EECS database will also inform IAASA's review activity/focus and IAASA decision may be posted to EECS database.
- Has not, yet, been necessary to invoke powers

Actions in response to IAASA correspondence (1)

- Initial letter → information gathering and not necessarily an indication of non-compliance
- Timescale for response.
- Involve advisers
- Comprehensive responses and explanations
- Set out proposed rectification actions, if applicable
- Ensure compliance with undertakings made

Actions in response to IAASA correspondence (2)

Auditors could:

- enquire of issuers regarding IAASA correspondence and assist issuers in meeting undertakings given

IAASA's statutory powers

Minimum requirements as per TD (and more) including power to:

- require auditors and issuers to provide information and documents
- require an issuer to disclose the required information
- make public the fact that an issuer is failing to comply with its obligation
- carry out on-site inspections

Reviews undertaken to date

Category of issuer	HY financial reports reviewed	Annual financial reports reviewed	Total number of periodic reports reviewed	Resultant re-filings
Equity	9	5	14	1
Debt	18	-	18	18
Funds	11	3	14	10*
Total	38	8		29

Findings to date (1)

- Half-yearly financial reports
 - IAASA publication

Commentary on Half-Yearly Financial Reports prepared since the coming into effect of the Transparency (Directive 2004/109/EC) Regulations, 2007

Findings to date – annual financial reports (Equity)

- Certain IFRS 7 disclosures (IFRS 7)
- Explanations for re-classifications (IAS 1)
- Presentation of items as ‘exceptional’: inclusion of accounting policy (IAS 1)
- Related-party disclosures (IAS 24)
- Provisions
- Management Report – risks and uncertainties
- Segment reporting disclosures (IAS 14/IFRS 8)
- Interest capitalisation (IAS 23)

Findings to date –financial reports (Fund/debt)

- Lack of awareness of statutory responsibilities and TD generally
- Equity v financial liability classification
- Treatment of F/X translation
- Risk and uncertainties disclosures
- Omission of explanatory notes
- Omission of reference to basis of preparation (IAS 34, ASB Statement, US GAAP)
- Failure to include comparatives
- Poor quality preparation (directors' reports, responsibility statements, management reports)
- EPS for funds

Looking forward to 2009

- Valuation and impairment of assets
- Retirement benefits
- Financial instruments
- Judgements
- DT assets
- Operating profit
- Alternative performance measures
- Business combinations, EPS, RPT, prior period errors

Questions?

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